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Bankers Unfazed By Credit Card Due from AT&T

By YVETTE D. KANTROW

NEW YORK — While many bankers expect American Telephone & Telegraph Co. to succeed in launching a general-purpose credit card this year, most view it as a threat they can manage — and hope they are not guilty of wishful thinking.

Fresh in bankers' memories is Sears, Roebuck and Co.'s Discover card.

The banking industry did not take Discover seriously when it was unveiled five years ago. Today, with 33 million cards in circulation, Discover is viewed as a viable competitor that is making major inroads into one of banking's most profitable businesses.

ANALYSIS:

Follow-up on the news

But the AT&T venture will be different, bankers and industry observers say.

Because AT&T is expected to arrange with one or more financial institutions to issue MasterCard and Visa cards — and not introduce its own, Discover-like brand — bankers say they can limit the telecommunications company's inroads.

To be sure, few bankers doubt that AT&T will be able to steal some market share from bank card issuers and from American Express Co. The telecommunications giant has deep pockets and has lured away some highly regarded bank card executives to head its new card operation.

Calling Cards Widely Held

Forty million people already carry cards issued by AT&T enabling them to charge long-distance phone calls. And perhaps most important, the Basking Ridge, N.J., company has a billing infrastructure that lets it reach almost every household in the country.

But many bankers say that AT&T's success will depend on its customers' loyalty.

"It's not like they are offering a pink Cadillac that nobody else has," said C. Richard McMahon, a vice president at First Union National Bank, Charlotte, N.C.

Visa Has Call Charging

A Visa card that allows customers to charge their long-distance phone calls is already offered by US Sprint — a product that many say can negatively affect AT&T's potential.

In addition, People's Bank, Bridgeport, Conn., teamed up with Southern New England Telephone Co. last year to offer a MasterCard that also is a telephone calling card. And MCI

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AN ELECTRONIC MAIL network that circles the globe will link Chase Manhattan Bank's customers and employees by yearend. *Page 3*

MANAGEMENT



ADRIAN MEEHAN, head of administrative services at Swiss Bank Corp., has joined the trend toward letting vendors handle mailroom chores. Farming out the business can save large amounts of money, several companies say. *Page 12*

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COMMENT

THE DOLLAR has fared well because of inflationary trends in Japan and West Germany, but a pinch is likely here if those nations maintain their present course, writes Stephen H. Axilrod. *Page 4*

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Regulators' Best-Laid Plans Wither

Lack of Bidders Stymies Big Sale Of Texas Parcels

By STEVE KLINKERMAN

DALLAS — Setting an ominous precedent for the Resolution Trust Corp., federal regulators have abandoned efforts to sell about \$400 million of real estate properties in a single "bulk sale" transaction.

An official of the Federal Deposit Insurance Corp. said the agency canceled the sale after deeming the only two bids unacceptable. The assets packaged for the bulk sale included most of the real estate holdings of the former Federal Asset Disposition Association, an agency created by the defunct Federal Home Loan Bank Board.

Experts say that if the RTC is not able to make the bulk-sale concept work, it could be forced to sell its properties piecemeal. The agency ultimately must dispose of \$100 billion of assets from about 600 failed thrifts.

"The failure of the FADA bulk asset sale is another factor that works against the success of the RTC," said Brian Smith, the former chief counsel for the Comptroller of the Currency.

Resolution Trust Corp. officials could not be reached for

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Seidman Proposal to Inject Funds Into Ailing S&Ls Wins Support

By ROBERT M. GARSSON

WASHINGTON — In an effort to reduce the number of thrifts they have to seize, federal regulators are seeking the authority to keep some capital-deficient institutions open by pumping government funds into them.

The idea, floated on Capitol Hill several weeks ago by Federal Deposit Insurance Corp. Chairman L. William Seidman, is winning support at the Office of Thrift Supervision.

Darrel Dochow, director of OTS's Office of Supervision Operations, said the plan offers a quick, low-cost approach that could keep up to 100 institutions from going to the Resolution Trust Corp., which is having difficulty dealing with the 337 thrifts already in its caseload.

To be sure, the proposal faces a number of hurdles. It still has to win approval from the Bush administration, which has not begun to evaluate the plan. And the idea is sure to be compared with the "open-thrift assistance" policy that put regulator M. Danny Wall under fire.

But the proposal is a clear signal that regulators are searching for better ways to handle the thrift cleanup. Just Wednesday,

How U.S. Might Aid Troubled Thrifts



Regulators are discussing the possibility of nursing sick thrifts back to health without seizing them. Such an effort might:

- Be directed by the Office of Thrift Supervision.
- Allow the government to infuse capital equal to 5% of a thrift's assets.
- Reduce pressure on the government to seize weak S&Ls.
- Allow existing management to remain in place.
- Wipe out shareholders.

the government had another setback when a federal judge issued an injunction preventing the seizure of a Illinois thrift that challenged key aspects of the thrift bailout. (See story on page 13).

The plan to assist thrifts would let them operate normally until buyers can be found.

Preserving Franchise Value

By keeping thrifts out of the RTC, the workout agency created last year to dispose of insol-

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Banks Binging Despite Realty Hangover

By BARBARA A. REHM

WASHINGTON — Despite growing red ink from real estate lending, the banking industry is still pouring money into that business, according to federal regulators.

"Real estate lending continues to fuel the industry's expansion," L. William Seidman, chairman of the Federal Deposit Insurance Corp., said Wednesday at a press conference on the banking industry's recent performance.

Real estate lending at 12,000 commercial banks in the fourth quarter grew 12.8% from a year earlier, according to data released by the FDIC. By contrast, all assets grew by 5.4%.

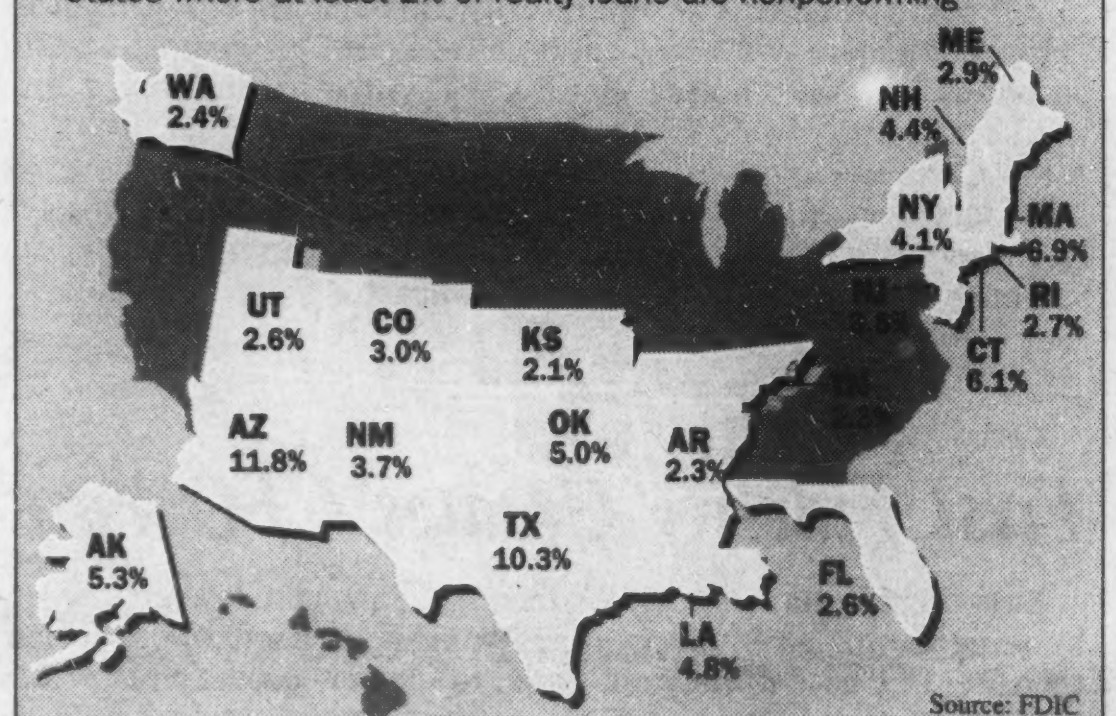
The increased lending came as many banks, particularly in the Northeast, boosted reserves for possible losses on real estate credits.

For the year, realty loans accounted for more than half of the industry's \$168 billion net increase in assets.

Overall, the industry earned \$2.7 billion in the fourth quarter, about half of what it earned in the 1988 period, but far better than the third quarter's \$700 million loss. For the year, banks

Where Real Estate Problems Are Focused

States where at least 2% of realty loans are nonperforming



earned \$16.3 billion, about 40% less than 1988's earnings of \$25.5 billion.

The Comptroller of the Currency, which also released industry statistics Wednesday, pegged real estate as the main cause of weakness among national banks in the Northeast.

During 1989, nonperforming real estate loans jumped to \$9.1 billion from \$3.6 billion at Northeastern banks, the Comptroller said. Earnings were weakest at national banks in the re-

gion. For the year, national banks there reported earnings of \$919 million, compared with \$6 billion in 1988.

Real estate lending growth is concentrated in the Far West and Southeast, the FDIC said. The six states with the biggest increases in real estate lending are California, Washington, Oregon, Nevada, South Carolina, Florida, and Delaware.

With the exception of Dela-

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COMMENT / By Stephen H. Axilrod

As Germany, Japan Tighten, Our Markets Will Feel Pinch

Monetary authorities in the United States, Japan, and Germany have a common objective — control of inflation — but they each face widely different domestic circumstances. These differences affect not only the timing and pace of actions taken in home markets but also the extent to which those actions affect foreign markets.

Recent developments in Japan and Germany, particularly in their bond markets, might be described as an attempt by participants to guard against further rises in inflation. At 7% and 9% respectively, long-term interest rates in Japan and Germany have risen to where they are quite high relative to their current inflation rates of 2.5% to 3% a year.

In both countries, however, there are fears of higher inflation. In Germany this is largely because of the impact of currency unification with the eastern sector. In Japan it is due to a combination of tight labor markets, rising oil prices, and excess liquidity.

The high interest rates also re-

fect the considerable, though not insurmountable, economic and political difficulties to be faced as Eastern Europe and Russia shed their oppressive communist carapace and attempt to integrate more into the European and world economies.

The economic integration of Western Europe could even be delayed. This would impede potential productivity and efficiency gains, as politicians divert their focus more to questions of political security raised by the new, more fluid European scene.

All of these circumstances, actual and potential, led to the sharp rise of longer-term interest rates in Germany and Japan, even though monetary authorities have thus far taken no additional restraining action this year. While long-term rates in those two countries now look high — even preemptively high, in real terms — they have not yet reestablished the market's earlier faith in their economies.

If the market had been fully convinced that these countries were succeeding in adjusting to potential economic difficulties, their currencies should have been rising on exchange markets. This is particularly so be-

cause both Germany and Japan have huge international payments surpluses, a traditional source of currency strength.

Decline of the Mark and the Yen

In recent weeks, the yen has shown a disturbing tendency to decline in value, even though the election outcome was supposed to herald a period of greater political stability. And the West German mark has lost strength as the potential inflationary implications of German unification have sunk into market thinking. Substantial official dollar sales in foreign-exchange markets have been required to stem the decline in the mark and the yen.

If the currency declines cannot be stopped and reversed through foreign-exchange intervention, the countries will be faced with the need to encourage further interest rate increases through official domestic market action. The odds on that occurring seem better than even at



the moment. In Japan, that will be at the peril of further drops in the stock market.

The stability of the dollar on exchange markets means that foreign monies have continued to move toward the United States on balance. Because of this movement, U.S. domestic markets have not been buffeted as much as might have been expected. Our stock market has not responded to the recent substantial weakness in Tokyo.

Dollar Is Still the Safest Refuge

Partly that's because our market has been more realistically valued since October 1987. It also indicates that, in times of uncertainty, the liquidity and underlying strength of U.S. markets tend to insulate them to an important degree from untoward events abroad.

Such reasoning should not be carried too far. A further substantial effort to combat inflation abroad will probably be felt in the United States in weakening bond, stock, and exchange values of the dollar.

In the United States, weak corporate profits suggest monetary restraint is taking hold, even though consumers continue to spend a bit more than the authorities are comfortable with. Under those circumstances, a substantial further tightening, whether initiated here or abroad, could well be climactic. In the United States it would bring interest rates back down later this year; as that becomes apparent, it would cushion the stock market. □

THE LOBBYISTS / By Barbara A. Rehm

4 Lobbying Groups Join on 'Laundering'

When Rep. Frank Annunzio, D-Ill., introduced the Depository Institution Money Laundering Amendments of 1990, the industry's response was unequivocal.

It hates the idea.

Mr. Annunzio wants to pull an institution's charter if it is found guilty of permitting money laundering. Four trade groups have joined forces to oppose the bill.

In a letter last month, Edward L. Yingling of the American Bankers Association, James B. Watt of the Conference of State Bank Supervisors, Kenneth A. Guenther of the Independent Bankers Association of America, and Mark J. Riedy of the National Council of Savings Institutions, told Mr. Annunzio that his bill could foster the industry's worst nightmare: runs by depositors.

"If a depository institution were charged with money-laundering offenses, depositors would almost certainly lose confidence, resulting in runs on the institution because of the threat of automatic charter revocation and institution closure," the letter said. "These 'runs' could be expected after the first news stories about the charges, even if the charges were eventually found to be groundless by the

courts."

The House Banking Committee's financial institutions subcommittee, of which Mr. Annunzio is chairman, is considering the bill today. Reps. Thomas R. Carper, D-Del., and Bill McCollum, R-Fla., may offer an amendment that would remove mandatory charter revocation and leave the issue up to regulators.

Consumer Bankers Fret over Sallie Mae

The Consumer Bankers Association is complaining about competition from the Student Loan Marketing Association, a government-sponsored agency.

In a letter last month to Sen. Claiborne Pell, D-R.I., chairman of an education subcommittee, CBA president Joe Belew said Sallie Mae is planning to offer \$170 million in loans to graduate and professional students at certain universities.

Sallie Mae, he said, is skimming the cream off the student-borrower pool.

"They've got an unfair funding advantage," Mr. Belew said this week to explain his group's opposition to the government-sponsored entity's entry into the student loan lending business. Sallie Mae was created to provide a secondary market for student loans.

"The commitment of funds by Sallie Mae to these two programs is seen as coming at the expense of secondary market services to traditional lenders

serving a broader spectrum of students," CBA's letter stated. Graduate and professional-student loans have larger balances and are repaid more frequently, it noted, making such loans more attractive.

Ross Kleinman, a Sallie Mae spokesman, rebutted CBA's charges. "Everything we are doing ... is perfectly consistent with our enabling legislation, so we don't have to go back to Congress to undertake this program," he said.

Home Builders Find Ally on Loan Ceilings

Credit the National Association of Homebuilders with keeping the loans-to-one-borrower debate alive.

Home builders claim that their credit is drying up as the provisions in the thrift-bailout law kick in. The law forces thrifts to adhere to national bank lending limits — meaning that total lending to any one borrower is capped at 15% of an institution's capital. Thrifts formerly could lend up to 100% of capital to a single borrower.

The home builders' champion on Capitol Hill is Rep. Carroll Hubbard, D-Ky.

Tuesday, he began circulating a "Dear Colleague" document asking other lawmakers to sign a

letter to Treasury Secretary Nicholas F. Brady and President Bush requesting "a regulatory transition period" for the new lending rule.

The Brady-Bush letter, which Mr. Hubbard plans to send Friday or early next week, explains that such a transition would avert the need to reopen the thrift rescue — something no one in the administration or on the Hill seems eager to do.

The House Banking Committee's oversight and investigations subcommittee, of which Mr. Hubbard is chairman, held a hearing on the issue Feb. 7. The Treasury Department refused to testify, but P. Allan Schott, chief counsel for the Comptroller of the Currency, showed up to tell lawmakers that he will not ease national bank lending limits. Mr. Schott added that he does not think his agency has legal authority to declare a transition period for thrifts.

Mr. Hubbard countered that regulators, even the Comptroller, have declared such periods when regulations were changed.

"Cannot the same discretion and flexibility be applied to the regulation of thrift institutions?" a draft of Mr. Hubbard's letter asked. "We would appreciate it if you would take a personal interest in reviewing this matter carefully with a view to implementing clear grandfathering for existing loans and a transition period for new loans."

Easing thrift lending rules is the home builders' main lobbying goal. So with members in town for a legislative affairs conference this week, the trade group dispatched them to the Hill on Tuesday to persuade their legislators to sign on to Mr. Hubbard's letter. □



Carroll Hubbard

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Banks Are Binging on Real Estate Loans Despite a Hangover of Mounting Losses

Continued from page 1

ware, all those states are in the two regions of growing concern by regulators — the West and the Southeast.

But Mr. Seidman warned against jumping to conclusions, even though banks in the Southwest and Northeast have already taken heavy losses on real estate loans. "I don't see any major trend at this time," the FDIC chief told reporters Wednesday.

In contrast to the real estate lending increases in the West and Southeast, banks in the Southwest have cut way back. Texas and Arizona recorded declines of 12% and 15%, respectively, in the amount of real estate loans made in 1989. Likewise, real estate growth was

Real estate lending accounted for more than half of the industry's \$168 billion net increase in assets last year.

among the lowest in the country at banks in Massachusetts, Rhode Island, and New Jersey.

Arizona Is No. 1

But the Southwest and Northeast still lead the country in non-current real estate loans. Arizona leads the nation with almost 12% of real estate loans more than 90 days past due or not accruing interest, the FDIC said. After Arizona come Texas with 10.3%; Massachusetts, 6.9%; Connecticut, 6%; Alaska, 5.3%; Oklahoma, 5%; Louisiana, 4.8%; New Hampshire, 4.4%; and New York, 4%.

Of the 10 largest banks, five recorded losses on the year,

mainly because of chargeoffs on loans to foreign countries. The fourth quarter's \$9.2 billion in chargeoffs and the year's \$22 billion set records, the FDIC said. Mr. Seidman applauded the bullet biting and said he thought banks were adequately covered on foreign loans.

Domestic Losses Covered

Banks also socked away a record amount of money to cover domestic loan losses in the quarter. Banks, mainly in the Northeast, set aside \$8.4 billion to cover future domestic loan losses.

Mr. Seidman said he was not worried about an economic slowdown causing extensive losses in the banking industry. However, the FDIC's report states: "If economic conditions deteriorate, loans to highly leveraged commercial borrowers could add to credit losses and recovery in the Southwest would be dealt a setback."

Mr. Seidman said the \$14 billion bank insurance fund could lose about \$500 million in 1989. He said the number of bank failures should decrease in 1990 from the 1989 tally of 206. □

World Business Atlas Published for Women

NEW YORK — Women's World Banking, an international association fostering access to financial services for women, is issuing an "Atlas of Global Trade," a 365-page guide to business practices in 38 nations.

The atlas, to be published in March and updated annually, includes information on licens-

ing, customs, and internal taxes; a glossary of trading terms; and a list of international governmental financial institutions. Funded in part by the U.S. Agency for International Development, it is available for \$25 from Women's World Banking, 104 E. 40th St., Suite 607, New York, N.Y. 10016. □

State-by-State Look At Real Estate Lending

Ranked by nonperforming loans on Dec. 31, 1989

	Percent nonperforming	Real estate loans outstanding (\$ in millions)	Loan growth '88-'89
1. Arizona	11.80%	\$7,446	(15.1%)
2. Texas	10.34	29,954	(11.8)
3. Massachusetts	6.89	31,305	1.5
4. Connecticut	6.12	15,347	9.9
5. Alaska	5.29	647	(37.9)
6. Oklahoma	5.01	5,033	0.0
7. Louisiana	4.82	8,444	5.1
8. New Hampshire	4.43	3,803	1.2
9. New York	4.14	103,872	15.7
10. New Mexico	3.73	2,883	8.8
11. New Jersey	3.49	30,939	7.0
12. Colorado	3.03	5,932	3.6
13. Maine	2.94	3,283	11.7
14. Rhode Island	2.74	4,285	3.0
15. Florida	2.64	47,892	18.5
16. Utah	2.57	3,070	5.8
17. Washington	2.42	11,435	25.8
18. Tennessee	2.33	12,091	10.1
19. Arkansas	2.26	4,955	8.1
20. Kansas	2.11	5,390	7.3
21. Wyoming	1.98	637	7.2
22. Montana	1.97	990	7.0
23. Vermont	1.94	2,822	12.1
24. Ohio	1.89	24,183	10.9
25. Oregon	1.81	4,593	18.2
26. Missouri	1.81	16,740	9.1
27. Nevada	1.80	2,044	22.8
28. Pennsylvania	1.80	38,850	16.9
29. Kentucky	1.78	9,836	15.5
30. North Dakota	1.76	1,185	11.8
31. California	1.65	104,778	27.8
32. Georgia	1.65	15,780	12.2
33. Mississippi	1.53	4,823	10.8
34. South Carolina	1.53	6,689	22.2
35. West Virginia	1.49	4,604	8.2
36. Minnesota	1.48	9,921	7.1
37. Illinois	1.45	34,194	15.0
38. Delaware	1.31	4,966	31.2
39. Nebraska	1.29	2,594	10.5
40. Alabama	1.28	9,303	12.4
41. Michigan	1.19	21,879	13.4
42. Maryland	1.16	16,540	11.4
43. Indiana	1.13	14,074	9.7
44. South Dakota	1.09	1,058	9.4
45. North Carolina	1.08	20,892	15.5
46. Idaho	1.07	1,380	11.6
47. Wisconsin	1.04	13,050	11.1
48. Iowa	0.98	5,637	10.5
49. District of Columbia	0.97	6,337	15.4
50. Virginia	0.81	19,411	15.3
51. Hawaii	0.55	4,610	14.5

Source: Federal Deposit Insurance Corp.

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Suit May Cause Loss at Sunrise

Reuters

ROSEVILLE, Calif. — Sunrise Bancorp. said that the settlement of a pending lawsuit against the company may cause it to report a loss for 1989.

Sunrise said its reserve for claims against the company is not adequate to cover the known and expected losses connected. The amount will be added to Sunrise's reserves and charged to its operations results in the fourth quarter.

Because of an anticipated substantial increase in income taxes due to the addition to its reserves, the company said it may report a loss in 1989.

Before the effect of the anticipated charge against operations, Sunrise said, the company had a record income before taxes of \$4.118 million for 1989.

The lawsuit related to alleged unauthorized withdrawals from pension and profit-sharing deposit accounts maintained at Sunrise Bank. The accounts were administered by a local pension fund administrator who has been charged with embezzling funds from pension plans he controlled. □

For Bankers Who Mean Business

Commercial Real Estate

Every Tuesday in
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